



TEXACO

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MESSAGE TO: Paula Neuroth (FOR RULES AND PUBLICATION STAFF)

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LOCATION: _____ ROOM NO.: _____

MESSAGE FROM: James C. Pruitt

TELEPHONE NO.: _____ FAX MACHINE NO.: _____

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LOCATION: _____ ROOM NO.: _____

ADDITIONAL COMMENTS:

Comments that were due today.

Thank you



James C Pruitt
Vice President
Government Relations
Department

Texaco

1050 17th Street NW
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Washington DC 20036

April 26, 1999

Minerals Management Service
Royalty Management Program
Rules and Publication Staff
P. O. Box 25165, MS 3021
Denver, CO 80225-0165

Subject: **COMMENTS ON REVISING**
AN EXISTING INFORMATION COLLECTION
Report of Sales and Royalty Remittance (Form MMS 2014)
64 FR 8835, February 23, 1999

Gentlemen:

Texaco Exploration and Production Inc. (TEPI) appreciates the opportunity to provide comments concerning the Minerals Management Service's proposed revisions to Form MMS 2014, Report of Sales and Royalty Remittance. In addition to our comments TEPI also incorporates and endorses the comments of the Council of Petroleum Accountants Societies (COPAS).

TEPI believes that the Minerals Management Service's (MMS) efforts to reengineer its business processes and update its collection and reporting procedures is commendable. TEPI feels that many of the suggested changes are very positive and will improve the royalty payment process. TEPI is concerned, however, that the proposed changes concerning product valuation and the valuation code reporting requirement are unnecessary and will more than offset the savings identified with the remaining proposed changes.

Specific comments:

1. *PIF Form*--TEPI concurs with the recommendation to eliminate the PIF form.
2. *Product Valuation*--TEPI strongly disagrees with the MMS's recommendations on product valuation and the requirement to report royalties using the valuation codes referenced later in the Notice. TEPI feels that it is unnecessary and burdensome to identify the various types of sales and report those to the MMS as separate line items on the form MMS 2014. In the case of gas sales, most are made out of multiple pools, which may include a variety of types of sales, including spot sales and long term sales which may also be categorized as both arms length and non-arms length



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sales. To reprogram existing computer systems that capture our pool sales information will be costly and time consuming. TEPI estimates the cost at approximately \$500,000 and one man-year of programming time. TEPI is concerned that the information being requested will not be useful to the MMS in achieving its stated goals. The MMS states in the Notice the following reason for requesting this information "*We need sales data reported at a level of detail that does not mix volumes and values to mask true exceptions or generate erroneous exceptions*". TEPI believes that the burden to comply with this proposal far outweighs the benefits. MMS has other means of obtaining the breakdown of sales data, when the MMS detects what it believes is a problem with the royalty value. The MMS can obtain this information on an as needed basis through its resident audit teams or the Royalty Valuation Division. It is overkill to request this level of detail prior to identifying a problem. There are situations where the payor will not have available the information to identify sales values to the level of detail requested. As an alternative, TEPI recommends adding a category for pooled sales. Although the recommendations for *Product Valuation* appear to be primarily addressing gas valuation, similar problems may exist in reporting crude oil. TEPI strongly urges MMS to withdraw its proposal for *Product Valuation* and *Valuation Code*. If, however, MMS still feels it is necessary to collect this data, TEPI requests that MMS hold a public workshop to allow the *Product Valuation* and *Valuation Code* portions of the Notice to be more fully discussed prior to arriving at a final decision on these sections of the Notice.

3. *Reporting Adjustments*--TEPI concurs with the recommendations for reporting adjustments.
4. *Transportation and Processing Allowance Deductions*--TEPI concurs with recommendation to include these deductions with the royalty payment line. MMS needs to clarify the reporting of allowance information when the royalty is taken in kind. MMS also needs to clarify how transportation allowances are to be reported for pooled sales under the *Product Valuation / Valuation Code* proposal.
5. *MMS 2014 Data Elements*--
 - *Payor Name*--) TEPI agrees with MMS recommendations
 - *Payor Code*--) "
 - *Indian Report Indicator*--) "
 - *Payor Assigned Document Number*--) "
 - *Line Number*--) "
 - *Reserved for Payor's Use*--) "
 - *MMS Lease Number*--TEPI agrees with the MMS's recommendations to use lease number in conjunction with the MMS agreement number to eliminate the revenue source code.
 - *API Well Number*--TEPI requests that MMS more fully explain the need for this data element. MMS indicates the need for this data is twofold. The first reason

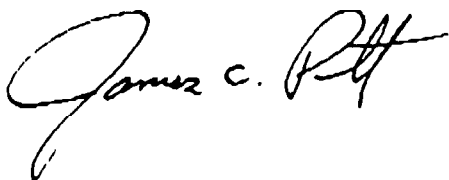
identified relates to reporting Indian royalties. In the absence of published revised gas valuation regulations for Indian leases, it is difficult to comment on the need for this level of detail for Indian leases. The second reason relates to OCS royalty relief reporting. TEPI urges MMS to consider the use of other data fields in the MMS Form 2014 to capture this information. Generally sales data is not available in revenue systems at the API well level. TEPI's revenue system, which generates the MMS 2014, does not contain the API Well Number and to link that information from another system will result in additional costs and programming time.

- *MMS Agreement Number*--TEPI agrees with MMS recommendations.
 - *Product Code*--MMS needs to add a definition for coalbed methane.
 - *API Gravity*--TEPI agrees with MMS recommendations.
 - *Valuation Code*--TEPI disagrees with the MMS recommendations. Please refer to our comments under *Product Valuation* above.
 - *Sales Month/Year*--TEPI agrees with MMS recommendations.
 - *Transaction Code*--MMS needs to review these codes to eliminate any unnecessary codes as a result of other recommendations. For example, transaction codes 11 and 15, transportation and processing, will no longer be needed.
 - *Adjustment Reason Code*--MMS should review and eliminate any unnecessary codes.
 - *Sales Volume*--TEPI agrees with MMS recommendations.
 - *Gas MMBtu Sales Volume*-- TEPI agrees with MMS recommendations.
 - *Royalty Rate*--TEPI believes MMS should obtain this information from its own records.
 - *Unit Price*-- TEPI agrees with MMS recommendations.
 - *Royalty Value Prior to Allowances*-- TEPI agrees with MMS recommendations.
 - *Transportation Deduction*-- TEPI agrees with MMS recommendations.
 - *Processing Deduction*-- TEPI agrees with MMS recommendations.
 - *Royalty Value Less Allowances*-- TEPI recommends that MMS eliminate this data element since this value is easily calculated from other data reported to MMS.
 - *Payment Method*--MMS needs to clarify how transportation (and processing?) will be reported when the government takes its royalty in kind.
6. *Report Control Block*--This block needs to be modified to allow the identification of MMS issued bills that are included in the electronic funds transfer (EFT) payment.
7. *Agreement Level Reporting*--MMS should not adopt agreement level reporting. The fact that this proposed methodology does not comply with the provisions of the Federal Oil and Gas Royalty Fairness Act of 1996 is in itself enough to eliminate this proposal from consideration. This method of reporting does not comply with the MMS regulations concerning lessee designations that require a lessee to file a designation form identifying designees responsible for paying the lessee's royalties.

In addition, MMS's allocation of payments to all the leases in the agreement will result in one payor's payments being allocated to all the leases in the unit although that payor may only be a lessee on certain leases in the unit. If one payor makes his payments correctly and another payor fails to make his payment or makes it incorrectly, then both payors will be identified as having reported incorrectly even though the first payor did exactly what he was supposed to do. In addition, there may be questions concerning which allocation was applied by the MMS. Was it the same allocation used by the payors (working interest owners)? What is the liability, if any, if valuation questions arise during audit months or years after the payments are made?

8. *Report Format and Presentation*—TEPI prefers 8 1/2 x 14 inch landscape version simply because it is the version that has been used historically.
9. *Paperless Reporting*—No comments.
10. *Reporting Burden*—TEPI believes that MMS has underestimated the burden associated with the *Product Valuation* and *Valuation Code* recommendations in this notice for the following reasons and strongly urges that these recommendations be rescinded.
 - To comply with this provision will be costly and time consuming. TEPI believes MMS has underestimated both the cost of initial and continuing compliance.
 - In addition to creating numerous additional lines on the original report for each production sales period, prior period adjustments will result in an exponential increase in the number of lines reported.
 - MMS has other means of obtaining the breakdown of sales data.
 - The proposal affects both gas and oil data, therefore, multiplying the impact of the proposal even greater than may have been envisioned by MMS.
 - The burdens clearly outweigh the benefits and therefore the proposal is inconsistent with the goals of the Paperwork Reduction Act of 1995.

In conclusion, TEPI appreciates the opportunity to comment on the proposed changes to the Form MMS 2014. If you have any questions regarding these comments, please call me at 202-331-1427.



JCP:caa
Attachment